

Analyst Report

Coverage Initiated February 7th, 2013

Aurgalys is contracted by Diaxonhit to provide equity research

Aurgalys

Mickael Dubourd, PhD, SFAF

Paris & Evry, France

Diaxonhit

ALTERNEXT PARIS: ALEHT [FR0004054427]

July 7th, 2016

Estimated price: €1.60

Share price (€) 0.39

(as of Jul. 7th, 2016)

High/Low (€) 0.55/0.34

(since Jan. 1st, 2016)

Market Cap. (€M) 30.4

(as of Jul. 7th, 2016)

Estimated Net Cash 3.2

(€M)

Estimated Market Cap. 123.9

(€M)

Number of shares (M) 78.0

Estimated price (€) 1.60

3-month average daily 226,000

volume

Free Float 84.7%

Diaxonhit: end of recruitment of Dx15's validation study for thyroid cancer diagnosis

Diaxonhit announced that the recruitment of the CITHY validation study for Dx15 has been completed. Dx15 is a genetic test indicated for the diagnosis of thyroid cancer. Fine-Needle Aspiration cytopathology is the gold standard procedure to determine whether a thyroid nodule is cancerous or benign, but 20% of analyses remain inconclusive. Dx15 could help analyze these undetermined samples and avoid unnecessary thyroidectomies in patients who could otherwise be subject to complications related to the surgical procedure and who would require lifelong hormone therapy. The CITHY clinical results are expected in 2017. Our target price for Diaxonhit remains unchanged at €1.60/share.

CITHY, largest European study performed for Thyroid cancer diagnosis

At the end of 2014, Diaxonhit announced the beginning of a validation study for its Dx15 diagnostic test for thyroid cancer, that could help reduce unnecessary thyroidectomies. The company first identified 200 biomarkers that were expressed differently between malignant and benign nodules, and then determined associated genetic signatures for its diagnostic test. The European CITHY study was initiated to validate the performance of Dx15 in clinical practice. The company just announced that patient recruitment has been completed. Patient follow-up and statistical analyses will be performed in the coming months, and Diaxonhit expects to communicate final results of the CITHY study in 2017.

Diaxonhit announced that a total of 1,581 patients were recruited for the clinical study, 50% more than in the initial protocol. This represents more than 1,700 thyroid nodule samples collected. Follow-up of patients, presenting

Euronext since Jan. 1st, 2016

Diaxonhit	-18.8%
Alys France*	-21.2%
Next Biotech	-19.5%
CAC Healthcare	-5.1%
CAC 40	-11.2%
Alternext Allshares	-3.6%

* Index of French smallcaps (less than €1B market capitalization at time of inclusion) in the healthcare and life sciences sector, listed on Euronext Paris.

See <http://www.aurgalys.com/aurgalys-indices>

undetermined thyroid nodules, would be performed until standard analyses have shown whether the nodule is cancerous or benign, typically by histopathology after thyroid removal. These results would be compared with that of Dx15, to evaluate its performance, i.e. sensitivity, specificity, etc. The validation study was performed in 17 centers in France, Italy and Spain. The early collaboration with thyroid cancer reference centers in 3 major European markets could lead to the rapid access of Diaxonhit's innovative test to European patients.

Unnecessary thyroid removal, relevance of genetic testing and Dx15

Although thyroid cancer has a good prognosis when detected early, it is estimated that 20% of thyroid nodules analyses performed by standard cytopathology remain inconclusive. As a precaution, the thyroid gland is removed although subsequent analyses reveal that such nodules were benign (70 to 80%). This results in unnecessary thyroid removal surgery, with its associated complications, and lifelong hormone therapy for patients.

In France alone, more than 7,000 unnecessary thyroid removals were performed in 2012, indicating that Dx15 could provide a real alternative to patients, health authorities and medical insurance. In the US, it is estimated that the number of thyroidectomies increased from 100,000 to more than 130,000 between 2006 and 2011. The high prevalence of thyroid nodules in the US population indicate that without genetic testing and appropriate diagnostic tools, the economic burden of unnecessary thyroid removal surgery can be huge.

Dx15 is not the first genetic test for undetermined thyroid nodules. Veracyte is an American company, marketing the Afirma solution, a genetic test similar to Dx15. Veracyte's test is only marketed in the US, and generated almost \$50M of revenue in 2015, a 30% increase compared to 2014. Afirma was developed on the Affimetrix microarray platform, whereas Dx15 relies on the Agilent platform, a less expensive technology, which could give Diaxonhit a competitive advantage in the US market. Diaxonhit may require adapting its genetic test to address the US market, and sell it as a laboratory-developed test. Positive CITHY results could confirm the clinical utility of the Dx15 test.

Upcoming News flow

- Q2/Q3-2016: First Prototype of DIAG-3S diagnostic test (HIV)
- 2017: Dx15 validation study results

Valuation

Our valuation of Diaxonhit is €120.7 M (enterprise value), unchanged since our last report on June 6th, 2016. Including an estimated net cash of €3.2 M, we value Diaxonhit at €1.60/share.

Stock Performance

Diaxonhit was not spared by the market sell-off affecting biotech stocks at the beginning of this year, which was further exacerbated by the Brexit referendum. The Company's shares have lost 18.8% since January 1st, 2016, trading at €0.39 as of July 7th, 2016. As a comparison, the Alys France index lost 21.2% over the same period.

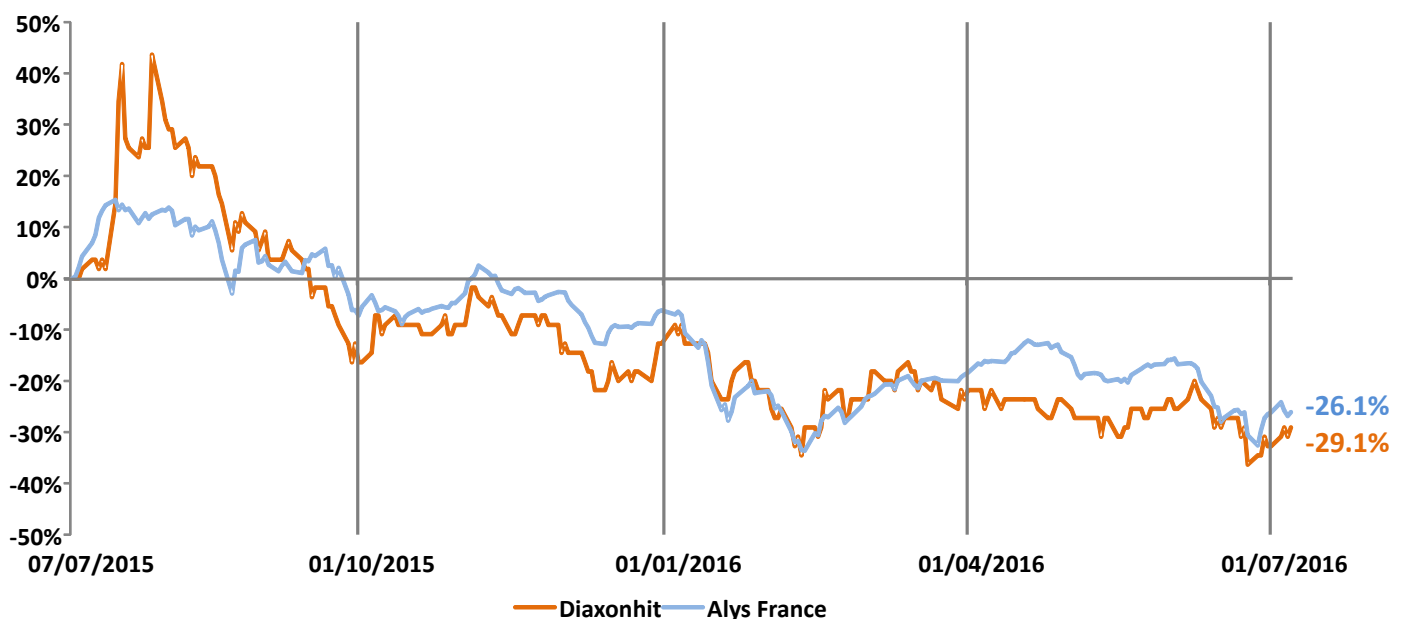


Figure 2: One-year chart dated July 7th, 2016, comparing the performance of Diaxonhit's stock with French smallcaps of the life sciences and healthcare sector (Alys France index).

Earnings Per Share	2014	2015	2016e	2017e	2018e
EPS	-0.09	-0.08	-0.06	-0.04	-0.02

Income Statement	2014	2015	2016e	2017e	2018e
Revenues	31.7	30.2	31.5	34.2	38.4
EBIT	-5.4	-8.0	-4.6	-3.7	-1.6
Net Income	-5.5	-5.9	-4.3	-3.4	-1.3

Balance Sheet	2014	2015	2016e	2017e	2018e
Non-Current Assets	16.3	14.3	12.6	10.9	9.3
Stocks	2.0	2.1	2.2	2.4	2.6
Account Receivables	4.8	4.2	5.3	5.7	6.4
Other Receivables	3.2	3.4	3.2	3.4	3.8
Other current assets	0.1	0.1	0.1	0.1	0.1
Cash and Cash equivalents	14.1	11.7	7.1	4.3	3.5
Current Assets	24.2	21.4	17.8	15.9	16.4
Total Assets	40.5	35.7	30.4	26.8	25.7

Total Equity	19.9	17.1	15.2	14.1	13.0
Convertible Bonds	7.0	5.2	2.7	0.2	0.0
Repayable Advance	1.0	0.9	0.8	0.8	0.7
Provisions	1.5	1.3	1.4	1.5	1.7
Financial Debt	1.9	1.6	1.1	0.7	0.4
Account Payable	5.7	6.8	6.1	6.5	7.1
Other Debt	3.5	2.7	3.0	2.9	2.8
Total Liabilities	20.6	18.6	15.2	12.7	12.7
Total Equity and Liabilities	40.5	35.7	30.4	26.8	25.7

Cash Flow Statements	2014	2015	2016e	2017e	2018e
Cash Flow from Operating activities	-3.4	-2.4	-3.1	-1.4	0.3
Cash Flow from Investing activities	-0.3	0.0	-0.2	-0.3	-0.3
Cash Flow from Financing activities	11.8	0.0	-1.2	-1.1	-0.8
Change in Cash	8.1	-2.4	-4.5	-2.8	-0.8

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Aurgalys

1, rue Pierre Fontaine
91058 Evry Cedex
France

www.aurgalys.com

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